

Contemporary Concern
Study

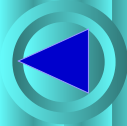
under the guidance of

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Behavioural Aspects of Financial Analysts

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Introduction

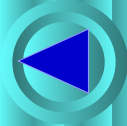
Motivation

- ❖ Behaviour affects analyst forecasts
- ❖ Studies on walkdown, improvement
- ❖ Impact of size and experience unknown

Data

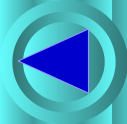
- ❖ I/B/E/S CD-ROM
- ❖ Analyst estimates and actual earnings
- ❖ 9 years of data
- ❖ Approx 3.3 million records

Study the impact of experience and size on walkdown, improvement, accuracy and optimism using the given data.



Definitions

Forecast		
Analyst	Forecast date	Estimate
Broker House	Release date	Actual
	Period	Error



Example

1 year to release date

Analyst A
Broker House B

Company C

Release date

Forecast 1

Mar 11

EPS: 300

Forecast 2

Oct 31

EPS: 180

Actual

Dec 31

EPS: 200

Forecast
Period

295
Days

61
Days

234
Days

Error

+50%

-10%

0.26%

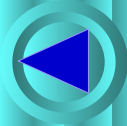
Absolute
error

50%

10%

0.17%

Change



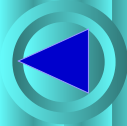
Definitions

Forecast	Variable	Rate
Error	Optimism	Walkdown
Absolute Error	Accuracy	Improvement

Size
Small
Large

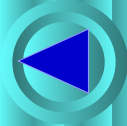
Period
Days
Forecast s

Experience
Company
Industry
Overall



Impact of Size

Methodology	Results
<ul style="list-style-type: none">❖ Error and absolute error for each forecast❖ Absolute errors beyond 200% filtered❖ Population divided into two by median of broker house size❖ Walkdown and improvement calculated for each sample	<ul style="list-style-type: none">❖ Walkdown is 29.7% a year (significant)❖ Improvement is 55.9% a year (significant)❖ Large broker houses have smaller walkdowns (not significant)❖ Large broker houses have larger improvements (not significant)
<p>Walkdown and improvement exist. Size does not matter.</p>	



Experience of Analysts

Methodology	
<ul style="list-style-type: none">❖ Error and absolute error for each forecast❖ Forecast period of one year❖ 5% of outliers eliminated❖ Analysts making forecasts in first year discarded❖ Regressed against days of experience and forecasts❖ Split by median experience❖ Compared variances	
When analysing	Accuracy ↑
Same company	0.73% pa *
Same industry	0.39% pa *
Different	0.05% pa
When analysing	Optimism ↑
Same company	0.07% pa ***
Same industry	0.59% pa
Different	0.05% pa
Variance of	Changes
Error	Higher
Absolute Error	Higher

**Accuracy and optimism up with experience.
Higher spread.**



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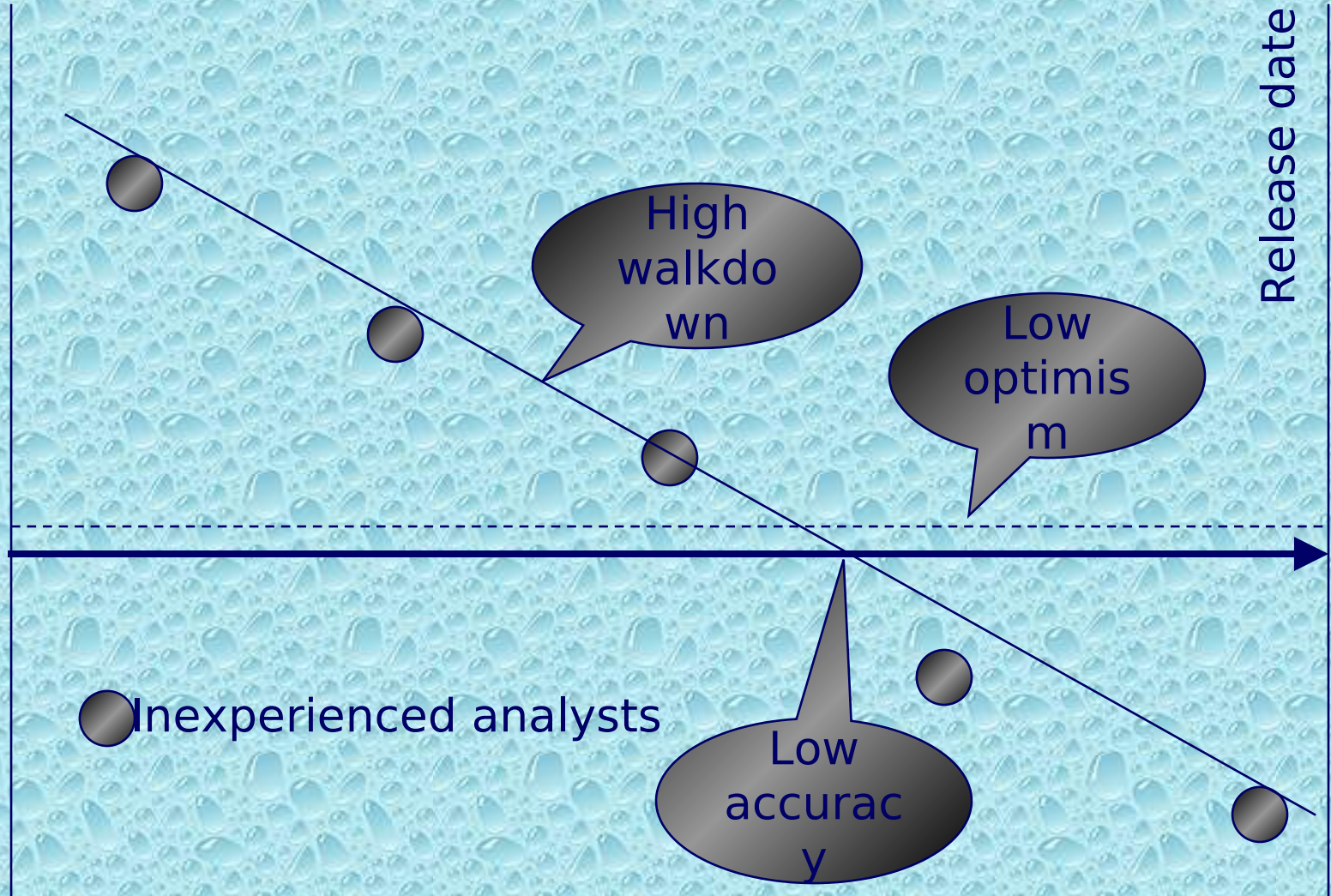
Behavioural

Finance

Inexperienced Analysts

1 year to release date

Release date



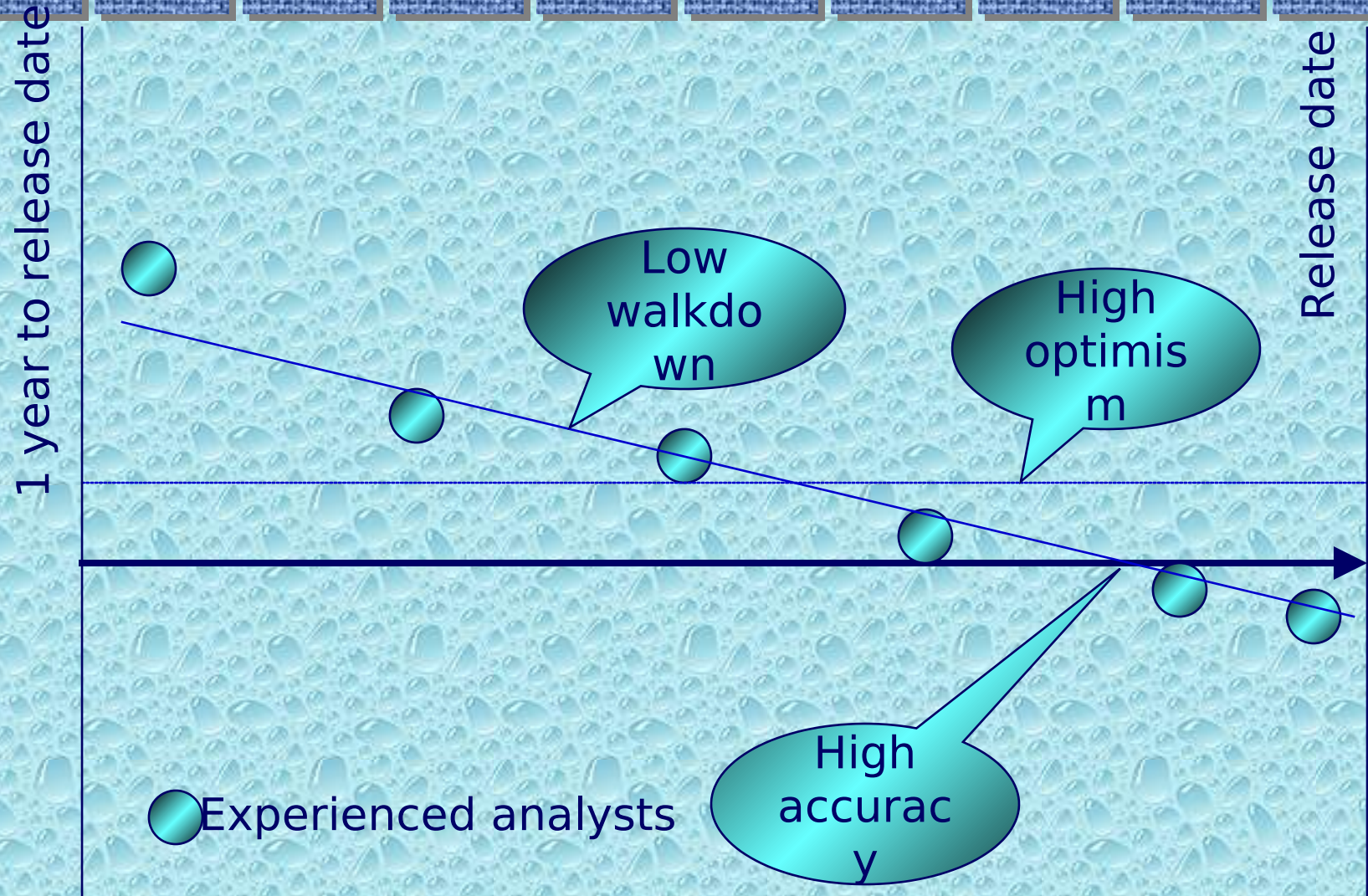


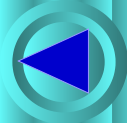
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Behavioural

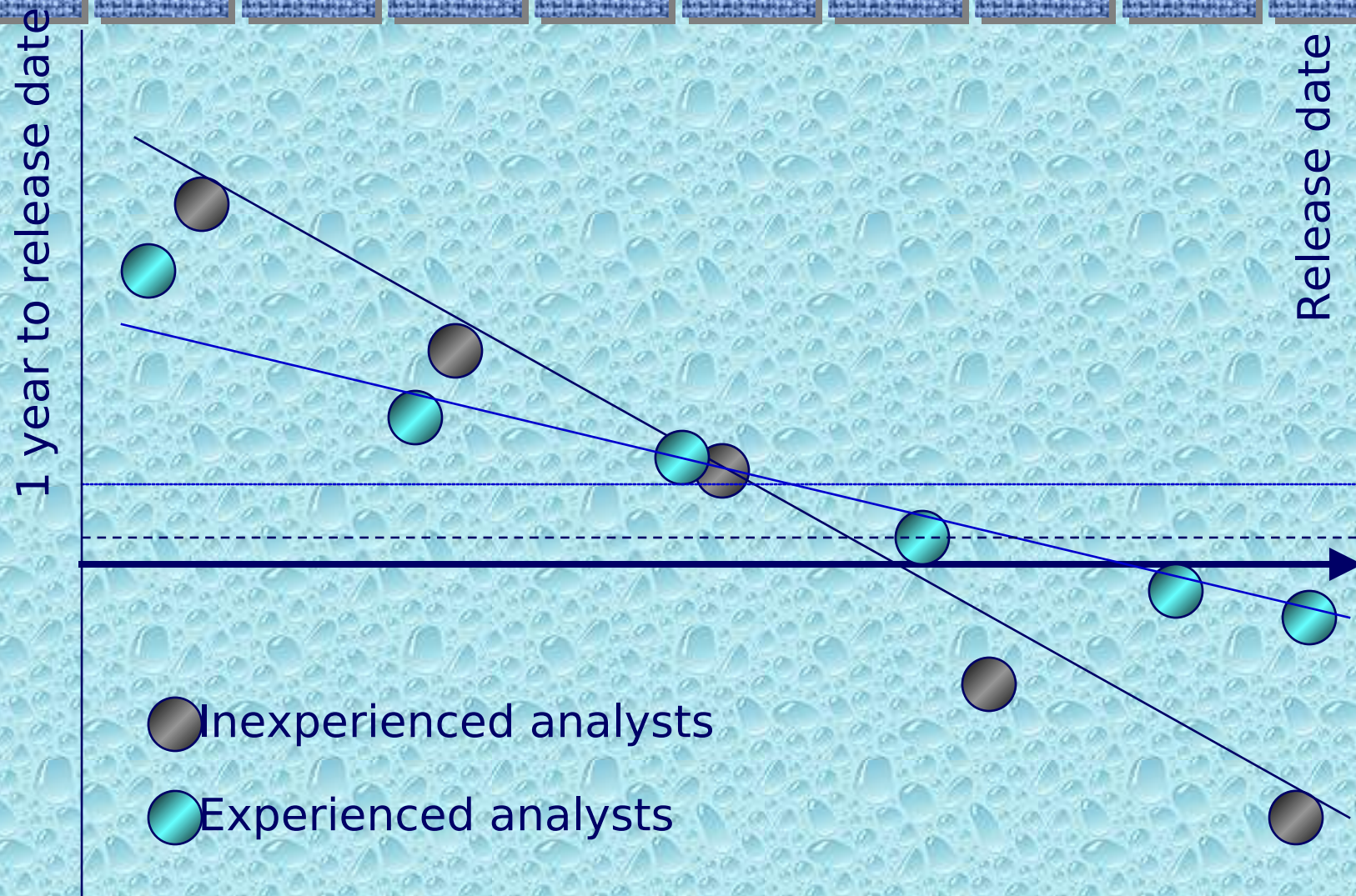
Finance

Experienced Analysts





All Analysts





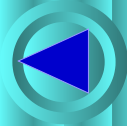
CCS:

Behavioural

Experience of Broker Houses

Methodology	When analysing	Accuracy ↑
<ul style="list-style-type: none">❖ Error and absolute error for each forecast❖ Forecast period of one year❖ 5% of outliers eliminated❖ Houses making forecasts in first year discarded❖ Regressed against days of experience and forecasts❖ Split by median experience❖ Compared variances	Same company	1.04% pa ***
	Same industry	1.14% pa *
	When analysing	Optimism ↑
	Same company	-1.54% pa *
	Same industry	0.75% pa *
	Different	0.01% pa *
	Variance of	Changes
	Error	Lower
	Absolute Error	Lower

Industry learning. Lower spread.



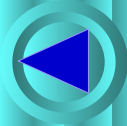
Usefulness

Investors

- ❖ When to follow a broker house
- ❖ When to follow an analyst
- ❖ Uncertainties involved

Broker Houses

- ❖ Recruiting decisions
- ❖ Nature of institutional & individual learning
- ❖ Job rotation



Limitations & Directions

- **Using analysts as a measure of broker house size**
- **Explanations for volatility**
 - ★ Nature of companies analyzed
 - ★ Herding versus industry-wide practices

Overall experience	Error	Absolute error
Analyst	+	+
Broker house	-	-

- **Walkdown and improvement against experience**
- **Behavioural reasons for results**



Thank You